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Brazil

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Brazil's 2004/05 Soybean Outlook

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Report Highlights:
The Ministry of Agriculture's first projection for crop year 2004/05 calls for an increase in production but with area expansion less than expected. Costs of production continue to rise and Brazil's soy exports to China for the month of September were down 36 percent. Crushing continues to be stagnated as farmers hang on to their beans but the sector anticipates an increase of 10 percent in the coming year. Biotech soybeans will make up 20 percent of the 2004/05 crop.

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Ministry of Agriculture in Brazil releases its first projections for 2004/05

The Brazilian government's first official soybean production estimate for the 2004/05 crop year is 60.8 million tons, a 22 percent increase from last year's crop. According to Agriculture Minister Rodrigues, this increase in production is expected despite less growth than anticipated in planted area. CONAB (USDA's ERS and CCC equivalent in Brazil) is projecting a planted area of between 22.0 and 22.4 million hectares, an increase of approximately 1 million hectares or a about a 5 percent increase over last year's area.

The increase reflects producers' anticipation of lower revenues in 2005. Increased costs of production, pressured by high prices for petroleum and steel, and a drop in international commodity prices are factors that will reduce planting intentions in Brazil.

Decreased fertilizer use also had an impact and made farmers more susceptible to climate variations. CONAB reports that farmers are faced with irregular rain patterns and in many areas, a lack of rain in general as farmers begin spring planting. Water reserves in the South are also below normal levels.

Commenting on Brazil's storage and transportation problems, the Minister said that the Brazilian government will invest 62 million Reais (US$ 22.1 million) in infrastructure improvements. The GOB anticipates that this investment will generate $1 Billion of additional commodity exports.

Current Factors

Soybean rust is continuing to catch Brazilian farmers by surprise, but the impact of rust on the current crop is unknown at this time. This year's crop faces a 20 percent increase in production costs over last year because of rising input costs, and price projections that are 30 percent lower than last year. Weather is the third main variable and potential aggravation and precipitation in most areas is lower than anticipated.

With tighter profit margins, farmers are especially careful in purchasing inputs. Some sources are reporting lower than average fertilizer and chemical sales, a sign that farmers may again skimp on one or the other, which will undoubtedly affect yields. Last year, farmers lost 4.6 million tons to rust, the equivalent of $1.2 billion worth of soybeans and a total of $2.2 billion including farmer costs. This year, the cost of fungicide is estimated at $60-$70 per hectare. It is possible that farmers will choose to gamble and not buy fungicide (or less than is recommended) rather than using less fertilizer. One influencing factor is that chemicals, unlike fertilizer and other inputs, cannot be returned if unused.

Nonetheless, in the center-west, where beans were planted less than a month before the release of this report, rust was already being identified in irrigated soybean areas, and farmers are reportedly ready to apply fungicide. The center-west was the hardest-hit area with the rust epidemic last year. In the state of São Paulo, rather than rotating with a different crop, many producers planted second-crop soybeans, which has reportedly allowed the rust to survive. On November 18, Embrapa, the Brazilian Ag research service, announced that Asian rust was found in the state of Maranhão, in the southern municipality of Balsas. Maranhão is the fifth state where Asian Rust has been officially detected this crop season. Other states include Mato Grosso, Paraná, Rio Grande do Sul, and Goias.

Exports

Decreasing internal and external prices, lower crushing margins, and weak international demand caused Brazilian exports to fall in October. Total Brazilian exports of the soy complex totaled $570 million, down 36% from October of 2003. Export growth began to slow in April, when numerous shipments of soybeans were rejected by China due to fungicide contamination, which Brazilian producers argued was an attempt to get out of the contracts. At that point, farmers began to lose confidence that they would be paid for their commodity sent to China, and soon after, prices that were at $10 a bushel dropped to $5. Exports to China, Brazil's largest market, have dropped 21% to $5.9 billion in the past 12 months. The fall in exports to China is an about-face from previous years, where over the period from 1999-2003 the value of Brazil's exports to China jumped from 620 thousand tons to 6.1 million tons.

Shipping problems in Brazil continue to escalate. According to industry sources, there are fewer and fewer ships available, trucking is more expensive, and there are new regulations in the port of Paranaguá. Charges for demurrage have increased from $10,000 to $40,000 a day. Overtime has been temporarily suspended for port workers and port premiums are in jeopardy for 2005.

Appreciation of the Brazilian currency (currently at R$2.80 to the dollar) is another concern for 2004/05 exports. Some industry sources question if Brazilian soy producers can maintain profit margins with the combination of current international soy prices and the current exchange rate. Producers claim they need at last R$ 3.0 to the US dollar to remain competitive at current prices.

Crushing

Although crushing levels are at below-average levels, the recent temporary closings of crushing facilities, including those owned by Cargill, ADM, and some producer-owned cooperatives, are considered normal at this time of year because of maintenance schedules. Also, crushing margins are down as a result of low prices. The majority of farmers stopped selling beans as prices dropped, and at least 15 percent of the harvest, equaling about 7 million tons, is now left in the hands of the producers. With a saturated international market due to the large U.S. and Argentine harvests, and another record harvest expected in Brazil, producers must also shoulder storage expenses for their unsold product. With planting in full swing, they also must sell to generate cash for planting expenses and inputs. Due to the sheer volume on the market, the crush in Brazil for crop year 2004/05 is expected to be up 5-10 percent.

Biotech Beans

Biotech soybeans will make up 20 percent of the total 2004/05 soybean harvest, according to CONAB. They are expecting 12 million metric tons of biotech soybeans, which is a 9.8 percent increase over last year's transgenic crop. Provisional Measure 223 (MP 223) allows for the legal planting and marketing of biotech soybeans for those farmers who signed a statement of responsibility (see BR4626). However, in Paraná, Brazil's second-largest soybean producing state, the governor's office decided that the state should be free of biotech soybeans, regardless of MP 223. To enforce their point, authorities there have been intercepting truckloads of soybeans traveling through Mato Grosso on their way to Paraná. In an attempt to influence farmers, the governor aired testimonies of U.S. and Canadian farmers who allegedly regretted planting biotech soybeans on state television.

With the temporary legalization of planting biotech soybean seed, Monsanto will continue to assess royalties on roundup ready soybeans based on the system negotiated with farmers in Rio Grande do Sul and Santa Catarina. Soybean growers may declare at the elevator that the beans are roundup ready and pay a fee of 20 Reais, or about US $7 per metric ton (last year, Monsanto offered a rebate of 10 Reais, or about US $3.50 per metric ton to implement the plan). If the grower claims that his load contains conventional soybeans, the load is tested on site using a lateral flow strip test. If the test detects the transgenic trait, the grower pays the fee plus a penalty. Ninety-eight percent of grain handlers (elevators, processors, crushers and grower co-ops) in the southern states of Brazil are under contract with Monsanto to collect royalties for the technology.

Estimated Production Costs for 2004/05: Conventional Vs. Biotech

The following data was compiled by the Paraná Department of Agriculture (SEAB-DERAL) in September 2004. Costs are from producers in Western Paraná, with a yield of 3120 kilos per hectare. Production costs have increased on an average of US$100 per hectare since the emergence of Asian rust in Brazil. Half of this amount goes for the purchase of fungicide (see table).

Item	Conventional $/ha	Biotech $/ha	Cost Variance	Variation
Machine Operation	42.00	40.50	2.00	5%
Maintenance	2.00	2.00	-	
Seasonal Labor	1.00	1.00	-	
Seed	35.00	50.00	(15.00)	-42%
Fertilizer	77.50	77.50	-	
Herbicide	94.00	17.00	77.00	82%
Insecticide	15.00	15.00		
Fungicide	53.00	53.00		
General Expenses	6.00	5.00	1.00	20%
Transport	14.00	14.00	-	
Drying and Storage	8.50	8.50	-	
Technical Assistance	6.50	5.00	1.50	20%
Crop Insurance	9.60	8.00	1.60	20%
Interest	17.00	14.00	3.00	19%
Total Variable Costs (A)	**383.00**	**310.00**	**73.00**	**19%**
Machinery Depreciation	18.50	18.00	.50	4%
Facility Depreciation	5.00	5.00	-	
Soil Correction	8.50	8.50	-	
Insurance	3.00	2.75	.25	3%
Fixed Labor	34.50	34.50	-	
Sub-Total (B)	69.50	68.50	1.00	1%
Return on Capital	25.00	24.50	.50	2.5%
Return on Land	66.50	66.50	-	
Sub-Total (C)	91.50	91.00	.50	1%
Total Fixed Costs (B+C)	**161.00**	**160.00**	**1.00**	**1%**
Operational Costs (A+B)	**452.00**	**379.00**	**73.00**	**16%**
Total Costs (A+B+C)	**544.00**	**470.00**	**74.00**	**14%**